

Message Text

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ORIGIN EA-12

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DRAFTED BY EA/TIMBS:EJCHESKY:CCH
APPROVED BY EA/TIMBS:DPSULLIVAN
EA - MR. HEGINBOTHAM
EA/EP - MR. HEGBERG
DESIRED DISTRIBUTION
EA ONLY

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FM SECSTATE WASHDC
TO AMEMBASSY JAKARTA

C O N F I D E N T I A L STATE 047053

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E.O. 11652: GDS

TAGS: EFIN, ID

SUBJECT: PERTAMINA HEARINGS BEFORE SENATE FOREIGN
RELATIONS SUBCOMMITTEE: HEGINBOTHAM TESTIMONY REACTIONS

1. THE EMBASSY HAS REPORTED VIA MEMCON ON THE CONCERNS
EXPRESSED BY ARIFIN SIREGAR OF THE BANK INDONESIA (BI)
ON IMPRESSIONS LEFT BY THE SENATE SUBCOMMITTEE HEARINGS
IN OCTOBER CONCERNING THE PERTAMINA CRISIS. ACCORDING
TO PRESS ACCOUNTS AND THE COMMITTEE REPORT, ISSUED IN
NOVEMBER, IT HAS BEEN IMPLIED THAT THE AMERICAN EMBASSY
IN JAKARTA PRESSURED THE GOI I4TO THE STEPS IT TOOK TO
RESOLVE THE CRISIS IN MARCH 1975. WE HAVE HEARD MORE
RECENTLY (FROM GEORGE KONOMO" OF LEHMAN KUH4 LOEB - PRO-
TECT SOURCE) THAT SEVERAL HIGH FIGURES IN THE GOI CONTINUE
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TO ECHO STRONGLY THE UNHAPPINESS EXPRESSED BY SIREGAR. THE
STRONGEST COMPLAINTS REPORTEDLY WERE MADE BY BI GOVERNOR
RAHMAT SALEH, BUT REMARKS HAVE ALSO BEEN HEARD FROM
MINISTER OF MINES SADLI AND MINISTER OF FINANCE WARDHANA
IN JANUARY. WE HAD BEEN INCLINED TO LET THE MATTER DIE A
NATURAL DEATH, OR PERHAPS SET THE RECORD STRAIGHT WHEN THE
FULL TESTIMONY IS PUBLISHED. HOWEVER, DUE TO THE DELAY IN

PUBLICATION AND THE RECURRENT REPORTS OF COMPLAINTS, THE DEPARTMENT BELIEVES THERE MAY BE MERIT IN DISCUSSING MATTER NOW, AT LEAST WITH THE BANK INDONESIA.

2. IN VIEW OF THE FACT THAT MR. HEGINBOTHAM MAY BE COMING TO JAKARTA AFTER THE ECONOMIC/COMMERCIAL CONFERENCE, WE WOULD LIKE TO HAVE THIS TOUCHY ISSUE RESOLVED WITH THE GOI PRIOR TO THE VISIT. UNLESS YOU SUGGEST OTHERWISE, HEGINBOTHAM DOES NOT INTEND TO DISCUSS THIS MATTER WITH GOI OFFICIALS.

3. THE EMBASSY IS OF COURSE AT A DISADVANTAGE IN NOT HAVING A TEXT OF TESTIMONY TO DRAW ON. HOWEVER, THE PRESENTATION BY MR. HEGINBOTHAM FOLLOWED CLOSELY THE UNCLASSIFIED OUTLINE PRESENTED TO THE COMMITTEE WHICH WAS POUCHED TO THE EMBASSY AT THAT TIME. THE EMBASSY MAY USE ITS DISCRETION, BASED ON CONVERSATIONS IT MAY ALSO HAVE HAD ON THIS SUBJECT, AS TO WHETHER IT WOULD BE USEFUL TO GIVE THE GOI A COPY OF THE OUTLINE.

4. THE MISINTERPRETATION IMPLYING U.S. PRESSURE ON THE INDONESIAN GOVERNMENT APPARENTLY ARISES FROM A STATEMENT IN THE COMMITTEE REPORT WHICH INCORRECTLY INDICATES TESTIMONY BY MR. HEGINBOTHAM TO THAT EFFECT. HOWEVER IT WILL BECOME CLEAR FROM THE FULL RECORD OF THE TESTIMONY THAT THIS WAS NOT THE CASE. IT IS CONFIDENTIAL

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POSSIBLE THAT AN INFERENCE OF U.S. PRESSURE MIGHT BE DRAWN FROM TESTIMONY DESCRIBING EMBASSY TRANSMITTAL OF INFORMATION TO THE U.S. BANKS THAT THE BI WOULD STAND BEHIND THE PERTAMINA DEBTS. HOWEVER, THE TESTIMONY MAKES CLEAR THAT THE GOI HAD ALREADY MADE ITS OWN DECISION TO STAND BEHIND PERTAMINA IN MARCH 1975, BUT HAD FOR ITS OWN REASONS NOT YET MADE THIS PUBLIC. THE U.S. EMBASSY IN JAKARTA ASKED BI IF WE COULD INFORM U.S. BANKS OF THIS DECISION. THE GOI GAVE THIS PERMISSION FREELY. WE ARE AWARE OF NO COMPLAINTS AT THAT TIME OF AN INAPPROPRIATE U.S. ROLE IN THE MATTER AND THE U.S. HAS GIVEN THE GOI FULL CREDIT FOR ITS DECISIONS AND CONSIDER THE RESOLUTION A GOOD EXAMPLE OF COOPERATION BETWEEN THE IMF AND HOST GOVERNMENTS.

5. DRAWING ON OUR COLLECTIVE MEMORIES OF THE MAIN POINTS MADE IN THE TESTIMONY WE SUGGEST THAT THE LINE OF THE PRESENTATION TO THE BI SHOULD BE AS FOLLOWS:

(A) OUR MAJOR CONCERN THROUGHOUT THE PERIOD OF THE GROWING CRISIS FROM 1972 TO 1975, WAS TO SUPPORT (NOT PRESSURE) THE GOI IN ITS EFFORTS AT MAINTENANCE OF

FINANCIAL INTEGRITY AND PRUDENCE IN INTERNATIONAL BORROWING. WE URGED U.S. BANK COOPERATION WITH GOI EFFORTS AS OFTEN AS WE HAD THE OPPORTUNITY. WE ALSO KEPT IN CLOSE TOUCH WITH THE IMF.

(B) THE ONLY ASPECT OF TESTIMONY RAISING AN ISSUE OF PRESSURE INVOLVED THE COMMITTEE REPEATEDLY ASKING IF THE EMBASSY HAD ATTEMPTED TO INFLUENCE U.S. REGULATORY AGENCIES TO RELAX THEIR CONCERNS ABOUT U.S. BANK LOANS TO INDONESIA. MR. HEGINBOTHAM CONSISTENTLY STRESSED THAT, PARTICULARLY IN THE SPRING OF 1975, THE MAIN CONCERN AND FUNCTION OF THE EMBASSY WAS TO KEEP LINES OF COMMUNICATION OPEN BETWEEN THE GOI, U.S. BANKS AND OTHER CONCERNED INSTITUTIONS SUCH AS THE FEDERAL
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RESERVE AND COMPTROLLER OF THE CURRENCY, SO THAT DECISIONS MADE WOULD BENEFIT FROM A MAXIMUM OF ACCURATE AND UP-TO-DATE INFORMATION.

(C) IN CONCLUSION, YOU SHOULD STRONGLY STRESS AS DID MR. HEGINBOTHAM THAT WE CONSIDER THE GOI'S MANAGEMENT OF THE FINANCIAL SITUATION IN 1975 AND THEREAFTER TO HAVE BEEN MASTERFUL AND EFFECTIVE. THE IMPRESSION THAT WE WISHED TO LEAVE THEN AND NOW IS THAT THE GOI HAS MANAGED ITS DEBT AFFAIRS IN AN EXCELLENT MANNER, AND WITHOUT USG PRESSURES.

5. UNLESS THE EMBASSY PERCEIVES OBJECTIONS TO DISCUSSION THE MATTER IN THIS FASHION WITH BI'S DR. SIRIGAR, YOU ARE REQUESTED TO DO SO AND REPORT FULLY (USING EA ONLY, STADIS CAPTIONS) ON THE RESULTS IN THE VERY NEAR FUTURE TO THE DEPARTMENT, AND TO MR. HEGINBOTHAM ENROUTE. WE WILL ALSO AWAIT YOUR ADVICE ON WHETHER FURTHER STEPS SUCH AS A HEGINBOTHAM LETTER TOGETHER WITH THE PUBLISHED TESTIMONY IS NEEDED AND RECOMMENDED. VANCE

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